Jones, Cochenour & Co.
Certified Public Accountants

GENERAL PURPOSE FINANCIAL STATEMENTS

of the

MORGAN METROPOLITAN HOUSING AUTHORITY

for the

Year Ended June 30, 2002

Auditor of State
Betty Montgomery

Board of Directors
Morgan Metropolitan Housing Authority
4580 N. State Route 376 NW
McConnelsville, OH 43756

We have reviewed the Independent Auditor's Report of the Morgan Metropolitan Housing Authority, Morgan County, prepared by Jones, Cochenour & Co., for the audit period July 1, 2001 through June 30, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Morgan Metropolitan Housing Authority is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

March 26, 2003

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MORGAN METROPOLITAN HOUSING AUTHORITY
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Jones, Cochenour & Co.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Morgan Metropolitan Housing Authority
McConnelsville, Ohio

Regional Inspector General of Audit
Department of Housing and Urban Development

We have audited the accompanying general purpose financial statements of Morgan Metropolitan Housing Authority, as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the Morgan Metropolitan Housing Authority's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

A special audit is currently being conducted by the State Auditor's office. They are investigating various allegations. The effects of this special audit is unknown. Accordingly, no provision for any liability that may result has been made in the financial statements.

In our opinion, except for the effects of the financial statements of the matter discussed in the third paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Morgan Metropolitan Housing Authority, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund type activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the general purpose financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as of April 1, 2001. This results in a change to the Authority's method of accounting for certain nonexchange revenues.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 13, 2002 on our consideration of Morgan Metropolitan Housing Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Morgan Metropolitan Housing Authority. The accompanying Schedule of Federal Awards Expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government and Non-Profit Organizations* and is not a required part of the financial statements. The financial data schedule ("FDS") and cost certification is presented for

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purposes of additional analysis as required by the Department of Housing and Urban Development and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Jones, Cochenour & Co.
September 13, 2002

Morgan Metropolitan Housing Authority
Balance Sheet
Proprietary Fund Type
Enterprise Fund
June 30, 2002

ASSETS		
Cash and cash equivalents	$	40,205
Receivables - net of allowance		4,882
Due from other funds		27,286
Inventories - net of allowance		10,145
Tenant security deposits		13,766
Deferred charges and other assets		12,848
Fixed assets - net of accumulated depreciation		2,459,592
TOTAL ASSETS	$	2,568,724
LIABILITIES, RETAINED EARNINGS AND OTHER CREDITS		
Accounts payable	$	2,529
Due to other funds		27,286
Intergovernmental payables		13,218
Accrued payroll and taxes		21,481
Accrued compensated absences		11,216
Tenant security deposits		13,550
Deferred credits and other liabilities		1,200
TOTAL CURRENT LIABILITIES		90,480
Long-term debt		17,394
Noncurrent liability - other		155
Noncurrent accrued compensated absences		7,645
TOTAL NON-CURRENT LIABILITIES		25,194
TOTAL LIABILITIES		115,674
EQUITY AND OTHER CREDITS		
PHA HUD contributions		2,808,199
Undesignated fund balance		(355,149)
TOTAL EQUITY AND OTHER CREDITS		2,453,050
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS	$	2,568,724

See accompanying notes to the general purpose financial statements

Morgan Metropolitan Housing Authority
Statement of Revenues, Expenses and Changes in Equity
Proprietary Fund Type
Enterprise Fund
Year Ended June 30, 2002

OPERATING REVENUE		
Tenant revenue	$	82,655
Program operating grants/subsidies		765,590
TOTAL OPERATING REVENUE		848,245
OPERATING EXPENSES		
Administrative		236,715
Tenant services		14,907
Utilities		43,293
Maintenance		96,409
General		18,798
Bad debts		46,196
Housing assistance payments		351,970
Depreciation		148,426
TOTAL OPERATING EXPENSES		956,714
NET OPERATING LOSS		(108,469)
NON-OPERATING REVENUE		
Interest income - unrestricted		335
Interest income - restricted		688
Other revenue		55
TOTAL NON-OPERATING REVENUE		1,078
NON-OPERATING EXPENSES		
Interest expense		196
OTHER FINANCING SOURCES (USES)		
Operating transfers in		20,955
Operating transfers out		(20,955)
TOTAL OTHER FINANCING SOURCES (USES)		-
NET LOSS		(107,587)
EQUITY AND OTHER CREDITS, BEGINNING		2,417,224
PRIOR PERIOD ADJUSTMENTS		143,413
EQUITY AND OTHER CREDITS, BEGINNING - RESTATED		2,560,637
EQUITY AND OTHER CREDITS, ENDING	$	2,453,050

See accompanying notes to the general purpose financial statements

Morgan Metropolitan Housing Authority
Statement of Cash Flows
Proprietary Fund Type
Enterprise Fund
Year Ended June 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net operating (loss)	$	(107,587)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation		148,426
Prior period adjustments		143,413
(Increase) decrease in:		
Investments		32,177
Receivables - net of allowance		31,655
Due from other funds		(27,286)
Inventories - net of allowance		(1,506)
Accounts receivable - other		17,003
Tenant security deposits		(13,766)
Deferred charges and other assets		(2,235)
Increase (decrease) in:		
Accounts payable		2,529
Due to other funds		27,286
Intergovernmental payable		(20,676)
Accrued payroll and taxes		21,481
Accrued compensated absences		(31,850)
Tenant security deposits		983
Deferred credits and other liabilities		(71,759)
NET CASH PROVIDED BY OPERATING ACTIVITIES		148,288
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of capital assets		(176,094)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term debt		17,394
DECREASE IN CASH AND CASH EQUIVALENTS		(10,412)
CASH AND CASH EQUIVALENTS, BEGINNING		50,617
CASH AND CASH EQUIVALENTS, ENDING	$	40,205

See accompanying notes to the general purpose financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Summary of Significant Accounting Policies

The financial statements of the Morgan Metropolitan Housing Authority (the "Authority") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

Reporting Entity

The Authority was created under the Ohio Revised Code, Section 3735.27. The Authority contracts with the United States Department of Housing and Urban Development (HUD) to provide low and moderate income persons with safe and sanitary housing through subsidies provided by HUD. The Authority depends on the subsidies from HUD to operate.

The accompanying general purpose financial statements comply with the provision of GASB Statement 14, the Financial Reporting Entity, in that the financial statements include all organizations, activities and functions for which the Authority is financially accountable. This report includes all activities considered by management to be part of the Authority by virtue of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity.

It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's government body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Management believes the financial statements included in this report represent all of the funds of the Authority over which the Authority is financially accountable.

Fund Accounting

The Authority uses the proprietary fund to report on its financial position and the results of its operations for the Section 8 and public housing programs. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Funds are classified into three categories: governmental, proprietary and fiduciary. The Authority uses the proprietary category for its programs.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Proprietary Fund Types

Proprietary funds are used to account for the Authority's ongoing activities which are similar to those found in the private sector. The following is the proprietary fund type:

Enterprise Fund – This fund is used to account for the operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus/Basis of Accounting

The proprietary funds are accounted for on the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized in the period incurred. Pursuant to GASB Statement No. 20 *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,* the Authority follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Investments

Investments are restricted by the provisions of the HUD Regulations (See Note 2). Investments are valued at market value.

Fixed Assets

Fixed assets are stated at cost and depreciation is computed using the straight line method over an estimated useful life of the assets. The cost of normal maintenance and repairs, that do not add to the value of the asset or materially extend the asset life, are not capitalized. The following are the useful lives used for depreciation purposes:

Buildings – residential	27.5
Buildings – non residential	40
Building improvements	15
Furniture – dwelling	7
Furniture – non-dwelling	7
Equipment – dwelling	5
Equipment – non-dwelling	7
Autos and trucks	5
Computer hardware	3
Computer software	3
Leasehold improvements	15
Land improvements	15

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include all highly liquid debt instruments with original maturities of three months or less.

Compensated Absences

The Authority accounts for compensated absences in accordance with GASB Statement No. 16. Sick leave and other compensated absences with similar characteristics are accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments. To calculate the liability, these accumulations are reduced to the maximum amount allowed as a termination payment. All employees who meet the termination policy of the Authority for years of service are included in the calculation of the compensated absences accrual amount.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: 1) The employees' rights to receive compensation are attributable to services already rendered and are not contingent on a specific event that is outside the control of the employer and employee, 2) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

In the proprietary fund, the compensated absences are expensed when earned with the amount reported as a fund liability.

PHA HUD Contributions
This represents contributions made available by HUD with respect to all federally aided projects under an annual contributions contract.

Budgetary Accounting
The Authority annually prepares its budget as prescribed by the Department of Housing and Urban Development. This budget is submitted to the Department of Housing and Urban Development and once approved is adopted by the Board of the Housing Authority.

Estimates
The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Receivables – net of allowance
Bad debts are provided on the allowance method based on management's evaluation of the collectability of outstanding tenant receivable balances at the end of the year. The allowance for uncollectable tenant receivables was $4,097 at June 30, 2002.

Related party receivable – net
Options, Inc. (a non-profit organization) was created to provide childcare for the tenants of the Authority as well as any other general public desiring childcare. The Authority used Low Rent and Capital Funds to pay for the expenditures of Options, Inc. Options, Inc. has gone out of business and the only funds to be recovered by the Authority will be $4,000, therefore, the allowance for Options, Inc. at June 30, 2002 was $38,977.

Inventories
Inventories are stated at cost. The allowance for obsolete inventory was $1,100 at June 30, 2002.

Accounting and Reporting for Nonexchange Transactions
The Authority adopted GASB 33 effective for the year ended June 30, 2002. Nonexchange transactions occur when the Public Housing Authority (PHA) receives (or gives) value without directly giving equal value in return. GASB 33 identifies four classes of nonexchange transactions as follows:

- Derived tax revenues: result from assessments imposed on exchange transactions (i.e., income taxes, sales taxes and other assessments on earnings or consumption).
- Imposed nonexchange revenues: result from assessments imposed on nongovernmental entities, including individuals, other than assessments on exchange transactions (i.e. property taxes and fines).
- Government-mandated nonexchange transactions: occur when a government at one level provides resources to a government at another level and requires the recipient to use the resources for a specific purpose (i.e., federal programs that state or local governments are mandated to perform).
- Voluntary nonexchange transactions: result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement (i.e., certain grants and private donations).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

PHA grants and subsidies will be defined as a government-mandated or voluntary nonexchange transactions.

GASB 33 establishes two distinct standards depending upon the kind of stipulation imposed by the provider.

- **Time requirements specify (a) the period when resources are required to be used or when use may begin (for example, operating or capital grants for a specific period) or (b) that the resources are required to be maintained intact in perpetuity or until a specified date or event has occurred (for example, permanent endowments, term endowments, and similar agreements). Time requirements affect the timing of recognition of nonexchange transactions.**
- **Purpose restrictions specify the purpose for which resources are required to be used. (i.e. capital grants used for the purchase of capital assets). Purpose restrictions do not affect when a nonexchange transaction is recognized. However, PHAs that receive resources with purpose restrictions should report resulting net assets, equity, or fund balance as restricted.**

The PHA will recognize assets (liabilities) when all applicable eligibility requirements are met or resources received whichever is first. Eligibility requirements established by the provider may stipulate the qualifying characteristics of recipients, time requirements, allowable costs, and other contingencies.

The PHA will recognize revenues (expenses) when all applicable eligibility requirements are met. For transactions that have a time requirement for the beginning of the following period, PHAs should record resources received prior to that period as deferred revenue and the provider of those resources would record an advance.

The PHA receives government-mandated or voluntary nonexchange transactions, which do not specify time requirements. Upon award, the entire subsidy should be recognized as a receivable and revenue in the period when applicable eligibility requirements have been met.

2. CASH AND INVESTMENTS

Cash

State statutes classify monies held by the Authority into three categories.

Active deposits are public deposits necessary to meet demands on the treasury. Such monies must be maintained either as cash in the Authority's Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Authority has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of Authority's deposits is provided by the Federal Deposit Insurance Corporation (FDIC) by eligible securities pledged by the financial institution as security for repayment, but surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

2. CASH AND INVESTMENTS - CONTINUED

Cash – Continued

The Authority's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits that are insured or collateralized with securities held by the Authority or its safekeeping agent in the Authority's name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution's trust department or safekeeping agent in the Authority's name. Category 3 includes uninsured and uncollateralized with securities held by the pledging institution, or by its trust department or safekeeping agent, but not in the Authority's name.

Deposits: The carrying amount of the Authority's deposits totaled $53,971 (includes security deposits). The corresponding bank balances totaled $68,146.

The following show the Authority's deposits (bank balances) in each category:

Category 1: $68,146 was covered by federal depository insurance

Investments

HUD, State Statute and Board Resolutions authorize the Authority to invest in obligations of the U.S. Treasury, agencies and instrumentalities, certificates of deposit, repurchase agreements, money market deposit accounts, municipal depository fund, super NOW accounts, sweep accounts, separate trading of registered interest and principal of securities, mutual funds, bonds and other obligations of this State, and the State Treasurer's investment pool. Investments in stripped principal or interest and principal of securities, mutual funds, bonds and other obligations of this State, and the State Treasurer's investment pool. Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose or arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Authority, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specific dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The Authority's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category A includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category B includes uninsured and unregistered investments for which the securities are held by the counterparty's Trust department or agent in the Authority's name. Category C includes uninsured and unregistered investments for which securities are held by the counterparty or its Trust department but not in the Authority's name. The Authority did not have any investments at June 30, 2002.

3. NOTE TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

The accompanying schedule of federal awards expenditures is a summary of the activity of the Authority's federal award programs. The schedule has been prepared on the accrual basis of accounting.

4. RISK MANAGEMENT

The Authority maintains comprehensive insurance coverage with private carriers for health, real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. There was no significant reduction in coverages and no settlements exceeded insurance coverage during the past three years.

5. FIXED ASSETS

The following is a summary:

Land		$ 251,650
Buildings		3,268,556
Furniture and equipment - dwellings		115,625
Furniture and equipment - administrative		143,409
Leasehold improvements		47,030
		3,826,270
	Accumulated depreciation	(1,366,678)
	NET FIXED ASSETS	$ 2,459,592

The following is a summary of changes:

	Balance June 30, 2001	Additions / Reclass	Deletions / Corrections	Balance June 30, 2002
Land	$ 251,650	$ -	$ -	$ 251,650
Buildings	3,102,387	166,169	-	3,268,556
Furniture and equipment - dwellings	62,506	53,119	-	115,625
Furniture and equipment - administrative	32,802	110,607	-	143,409
Leasehold improvements	-	47,030	-	47,030
Construction in progress	68,920	-	68,920	-
TOTAL FIXED ASSETS	$ 3,518,265	$ 376,925	$ 68,920	$ 3,826,270

The depreciation expense for the year ended June 30, 2002 was $148,426.

6. DEFINED BENEFIT PENSION PLANS – PUBLIC EMPLOYEES RETIREMENT SYSTEM

All employees participate in the Public Employees Retirement System of Ohio (PERS), a cost sharing multiple-employer defined benefit pension plan operated by the State. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Public Employee Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the Authority is required to contribute 9.35 percent. Contributions are authorized by State statute. The contribution rates are determined actuarially. The Authority's required contributions to PERS for the years ended June 30, 2002, 2001 and 2000 were $38,365, $25,717, and $29,693, respectively. The full amount has been contributed for 2001 and 2000. 92 percent has been contributed for 2002, with the remainder being reported as a liability within the enterprise fund.

7. POSTEMPLOYMENT BENEFITS – PUBLIC EMPLOYEES RETIREMENT SYSTEM

The Ohio Revised Code also provides statutory authority requiring public employers to provide and fund postretirement health care through their contributions to the Public Employees Retirement System of Ohio (PERS). Postretirement health care coverage is provided to age and service retirees with ten or more years of qualifying service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care. The Ohio Revised Code also provides statutory authority for employer contributions. Of the 13.55 percent employer contribution rate for the Authority for the year 2002, 4.3 percent was used to fund health care. The assumptions and calculations below were based on the System's latest Actuarial Review performed December 31, 2000. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2001 was 7.75 percent. An annual increase of 4.75 percent compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.75 percent base increase, were assumed to range from 0.54 percent to 5.1 percent. Health care costs were assumed to increase 4.75 percent annually. As of December 31, 2001, the number of active contributing participants was 411,076. The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2000 was $11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $14,364.6 million and $2,628.7 million, respectively.

8. RETAINED EARNINGS AND OTHER CREDITS/PRIOR PERIOD ADJUSTMENTS:

	Total	Net HUD PHA Contributions	Retained Earnings
Balance as of June 30, 2001	$ 2,417,224	$ 2,809,345	$ (392,121)
Net loss as of June 30, 2002	(107,587)	(141,520)	33,933
Payable to HUD corrected	560	-	560
Correction of accounts payable -Government	3,921	-	3,921
Soft costs not properly expensed in prior years	(8,888)	(8,888)	-
Accumulated depreciation - Section 8	1,110		1,110
Miscellaneous - Section 8	240	-	240
Undistributed debits written off	(3,760)	-	(3,760)
Correction of fixed assets and accumulated depreciation	150,230	149,262	968
Balance as of June 30, 2002	$ 2,453,050	$ 2,808,199	$ (355,149)

9. FDS SCHEDULE SUBMITTED TO HUD

For the fiscal year ended June 30, 2002, the Authority electronically submitted an unaudited version of the combining balance sheet, statement of revenues, expenses and changes in retained earnings and other data to HUD as required on the GAAP basis. The audited version of the FDS schedules are on pages 16-19. The schedules are presented in the manner prescribed by Housing and Urban Development. These schedules can be used to tie the total assets and liabilities into the combined statements.

10. STATUS OF LOW RENT PUBLIC HOUSING MANAGEMENT REVIEW

The Authority had a Low Rent Public Housing Management review which was conducted the week of May 6, 2002 and the following are findings that were reported to Morgan Metropolitan Housing Authority:

A. Co- Mingling of Funds, Violation of Part A, Section 10 of the Annual Contributions Contract (ACC)

The Authority is permitted to deposit into the General Fund, funds from other projects or enterprises in which HUD has no financial interest. The Authority is prohibited from withdrawal of funds for the projects under ACC or other enterprises in excess of the amount then on deposit. Co-mingling of funds refers to the use of one program's funds to pay expenditures for another program.

The Authority has used Low Rent and Capital funds to pay expenditures of Options, Inc. according to the general ledger, as of March 31, 2002, there was $38,389.93 in accounts receivable from Options, Inc. As of April 30, 2002, there was $104,667 drawn from Capital Fund 502; $54,594 of those draws could not be accounted for by the existing documentation. Further, the existing documentation indicates that Capital Funds were used to pay off Section 8 FSS escrows ($10,000), to refund the low rent security deposit account ($10,000) and as a contribution to Options, Inc. ($6,000). The Authority had planned to purchase a maintenance vehicle using Capital funds, but after ordering the vehicle realized that there were no funds available. In order to proceed with the purchase, the Authority borrowed the funds for the purchase. The Annual Contributions Contract (ACC) prohibits the Authority from encumbering the projects under the ACC or pledging as collateral for a loan, the assets of any project covered under the ACC.

Recommendations and specific steps required by HUD: The Authority staff and Board of Commissioners must become familiar with each program. The governing documents must be reviewed by the board and made available to the staff members that are accountable for program management. There must be a full accounting of funds owed by Options, Inc. to the other programs operated by the Authority. The Authority must address the manner in which funds can be returned to the appropriate programs. The Authority must account for capital fund draws for programs 501 and 502.

Response to HUD: The Authority is conducting an internal audit to review expenditures to determine the extent of co-mingling and how best to fashion any needed corrective action. The Accountant for Morgan MHA has determined that Options, Inc. only has approximately $4,000 in a bank account, and since Options, Inc. has gone out of business the only funds that may be recovered is $4,000. Therefore an allowance account had to be created for $38,977 in Low Rent Public Housing funds that were not expended for other projects or enterprises in which HUD had a financial interest.

B. The audit for period ending 2001 had not been submitted to HUD within nine months.

The "Uniform Financial Reporting Standards for HUD Housing Programs" requires submission of the fiscal audit within nine months of the end of the fiscal year. The audit for period ending June 30, 2001, was due on March 31, 2002.

Recommendation and specific steps required by HUD: Submit the audit report for fiscal year ending 2001 in accordance with the Uniform Standards.

Response to HUD: The audit report for fiscal year ending 2001 has been submitted by the audit report date.

C. Questioned costs/Failure to follow internal policies-reportable condition-material weakness

The Annual Contributions Contract (ACC) defines an operating expense as necessary for the operation of the project. The mission of the Housing Authority is defined as the operation of each project in an economic, efficient and stable manner. The following are examples of questionable expenditures from the general fund:

10. STATUS OF LOW RENT PUBLIC HOUSING MANAGEMENT REVIEW - CONTINUED

C. Questioned costs/Failure to follow internal policies-reportable condition-material weakness - Continued

- **The Authority has credit cards in the name of the Authority. During testing of cash disbursements it was discovered that detailed billing for the credit card expenditures was not always available. It is not possible to determine exactly what items were purchased because only the credit card statement is attached to the payment. The statements lump purchases into general merchandise or office supplies. The credit card account also had expenditures for Options, Inc.**
- **The Authority has cell phones that are for Authority use. There were calls made on the bills that could not be documented as work related calls. There were no policies put into place when cell phones were provided for use.**
- **Overtime was paid to the Executive Director (Check #7040). The personnel policy states that management employees will be reimbursed via the use of compensatory time.**
- **Travel was reimbursed without Board approval. For example, travel expenses were paid in October 2000 to Hilliard and Columbus, May 2001 for a trip to Columbus, November 2001 to Newark, and December 2001 for a trip to Columbus; no Resolution numbers were included on the "statement of travel and other expenses". The Personnel Policy states that "each trip to a destination outside the jurisdiction of the local agency (except to the HUD Area Office and Ohio Housing Authorities meeting) shall have prior authorization by a resolution of the Board."**
- **Local mileage was reimbursed for the executive director to travel to and from home without prior authorization. The Personnel Policy states "employees…may perform travel essential to the conduct of the program". Board resolution #93-17, dated January 6, 1993, "Hiring of the Director" included "minimum use of a company car for initial six months…". After the initial six month period the Director continued to have use of the Authority's car for travel to and from work with no further authorization. When the Authority car was unavailable, mileage for use of personal car as paid. No vehicle records were maintained to support the unavailability of the Authority car. In one case, Check #12565 in the amount of $75.00, the supporting mileage sheet attached was for $62.40. The amount claimed on the employee's W-2, "Wage and Tax Statement" for 2001 was $450.00 for a company car. Given that mileage reimbursement claimed for three days was $62.40, the benefit claimed on the W-2 appears to be understated.**

Recommendation and specific steps by HUD: This finding encompasses several problem areas. Corrective action involves procedural improvements and specific resolution of ineligible expenses.

The Authority currently has all credit card purchases, travel expenses and cell phone bills under review. The Board secured all credit cards by Resolution #02-326, "Restriction of Credit Card Use" on March 18, 2002 meeting, an inventory of the administration building was requested by the Board. A vehicle log has been established for Housing Authority vehicles. These steps all improve the internal control over expenditures. Further actions needed to correct this Finding:

1. **Each month the Board approves payment of the bills. Before the bills are approved for payment, a sample of expenditures should be pulled and reviewed in detail for appropriate supporting documentation. New Board members should be trained on the Authority's policies and procedures.**
2. **Review and update current policies governing travel. Develop policies for credit card and cell phone use.**
3. **For the disbursements currently under review, determine if actual receipts are available to support credit card purchases. Review all Board actions to determine if resolutions exist to support travel and if program purposes were served. Provide full account of expenses that cannot be supported. Address the manner in which ineligible expenditures will be reimbursed to the appropriate program.**
4. **The Authority needs to review the significant steps in accounting transactions and create separation of duties that will for internal controls. While it is recognized that this can be difficult in small housing authorities, it is necessary to safeguard the Authority's assets. Guidebook 7510.1 addresses internal controls and may assist the Authority in its efforts. Periodic use of a fee accountant in a quality capacity may also be beneficial.**

10. STATUS OF LOW RENT PUBLIC HOUSING MANAGEMENT REVIEW - CONTINUED

C. Questioned costs/Failure to follow internal policies-reportable condition-material weakness - Continued

5. The Authority needs to establish a procedures manual for the Authority that outlines internal procedures for accounting and internal controls.

Response to HUD: Personnel policy has been revised and submitted to the Board for approval which includes policies for credit card usage, cell phone usage and company car usage. Board is reviewing payment of bills prior to payment.

D. Cost Allocation Plan

The Authority does not have a cost allocation plan as required by Office of Management and Budget (OMB) Circular A-87. The Authority needs to implement a cost allocation plan that addresses the allocation programs of central and indirect costs in a reasonable and consistent manner. A review of costs indicates that in most cases, there was no indication of prorated costs, such as utilities, telephone expense, postage, and office supplies. The method to allocate salaries across the programs was not supported or documented. For example, all of the Maintenance Director's time was allocated to the Capital Fund, but few Capital fund improvements have been undertaken.

Recommendation and specific action by HUD: Develop and submit a cost allocation plan that provides for a reasonable and consistent basis for costs to be assigned. Cost allocation for salaries of employees who work with more than one program should be based on actual time spent per program. This may be evidenced by analysis of time sheets.

Response to HUD: The accountant is currently developing a cost allocation plan.

11. SPECIAL AUDIT – SUBSEQUENT EVENT

As noted in the auditors' report, a special audit is currently being conducted by the State Auditor's office. They are investigating various allegations. The report was not released as of the date of this report.

Morgan Metropolitan Housing Authority
Balance Sheet
FDS Schedule Submitted to HUD
Proprietary Fund Type
Enterprise Fund
June 30, 2002

FDS Line Item No.	Account Description	14.871 Section 8 Vouchers	14.850 Public & Indian Hsg	14.872 Capital Fund	14.852 CIAP	TOTAL
	ASSETS					
111	Cash - unrestricted	$ 14,704	$ 24,775	$ -	$ -	$ 39,479
113	Cash - other restricted	571	155	-	-	726
114	Cash - tenant security deposits	-	13,766	-	-	13,766
100	TOTAL CASH	15,275	38,696	-	-	53,971
125	Accounts receivable - miscellaneous	-	42,977	-	-	42,977
126	A/R Tenants - dwelling rents	-	4,979	-	-	4,979
126.1	Allowance for doubtful accts	-	(4,097)	-	-	(4,097)
126.2	Allowance for doubtful accts - other	-	(38,977)	-	-	(38,977)
120	TOTAL ACCOUNTS RECEIVABLE	-	4,882	-	-	4,882
142	Prepaid expenses and other assets	28	12,820	-	-	12,848
143	Inventories	-	11,245	-	-	11,245
143.1	Allowance for obsolete inventory	-	(1,100)	-	-	(1,100)
144	Interprogram due from	-	27,286	-	-	27,286
150	TOTAL CURRENT ASSETS	15,303	93,829	-	-	109,132
161	Land	-	251,650	-	-	251,650
162	Buildings	-	3,241,831	26,725	-	3,268,556
163	Furniture and equipment - dwellings	-	115,625	-	-	115,625
164	Furniture and equipment - admin	24,177	97,800	21,432	-	143,409
165	Leasehold improvements	-	47,030	-	-	47,030
166	Accumulated depreciation	(15,991)	(1,346,870)	(3,817)	-	(1,366,678)
160	TOTAL FIXED ASSETS, NET	8,186	2,407,066	44,340	-	2,459,592
180	TOTAL NON-CURRENT ASSETS	8,186	2,407,066	44,340	-	2,459,592
190	TOTAL ASSETS	$ 23,489	$ 2,500,895	$ 44,340	$ -	$ 2,568,724

Morgan Metropolitan Housing Authority
Balance Sheet
FDS Schedule Submitted to HUD
Proprietary Fund Type
Enterprise Fund
June 30, 2002

FDS Line Item No.	Account Description	14.871 Section 8 Vouchers	14.850 Public & Indian Hsg	14.872 Capital Fund	14.852 CIAP	TOTAL
	LIABILITIES					
312	Accounts payable <=90 days	$ -	$ 2,529	$ -	$ -	$ 2,529
321	Accrued wages/payroll taxes	-	21,482	-	-	21,482
322	Accrued compensated absences	3,615	7,600	-	-	11,215
331	Accounts payable - HUD PHA programs	9,282	-	-	-	9,282
333	Accounts payable - other govt	-	3,936	-	-	3,936
341	Tenant security deposits	-	13,550	-	-	13,550
344	Current portion of long-term debt	-	1,200	-	-	1,200
347	Interprogram due to	27,286	-	-	-	27,286
310	TOTAL CURRENT LIABILITIES	40,183	50,297	-	-	90,480
352	Long-term debt - net of current	-	17,394	-	-	17,394
353	Noncurrent liabilities - other	-	7,800	-	-	7,800
350	TOTAL NONCURRENT LIABILITIES	-	25,194	-	-	25,194
300	TOTAL LIABILITIES	40,183	75,491	-	-	115,674
513	TOTAL EQUITY	(16,694)	2,425,404	44,340	-	2,453,050
600	TOTAL LIABILITIES AND EQUITY	$ 23,489	$ 2,500,895	$ 44,340	$ -	$ 2,568,724

See independent auditors' report

Morgan Metropolitan Housing Authority
Statement of Revenues, Expenses and Changes in Retained Earnings
FDS Schedule Submitted to HUD
Proprietary Fund Type
Enterprise Fund
Year Ended June 30, 2002

FDS Line Item No.	Account Description	14.871 Section 8 Vouchers	14.850 Public & Indian Hsg	14.872 Capital Fund	14.852 CIAP	TOTAL
	REVENUE					
703	Net tenant revenue	$ -	$ 82,655	$ -	$ -	$ 82,655
705	TOTAL TENANT REVENUE	-	82,655	-	-	82,655
706	PHA HUD grants	446,438	181,501	104,010	-	731,949
706.1	Capital contributions	-	-	33,641	-	33,641
711	Investment income - unrestricted	-	335	-	-	335
715	Other revenue	-	55	-	-	55
720	Investment income - restricted	688	-	-	-	688
	TOTAL REVENUE	447,126	264,546	137,651	-	849,323
	EXPENSES					
911	Administrative salaries	67,150	34,449	36,323	-	137,922
912	Auditing fees	2,000	1,300	-	-	3,300
914	Compensated absenses	(13,924)	-	-	-	(13,924)
915	Employee benefit contribution - admin	16,718	16,855	6,916	-	40,489
916	Other operating - administrative	16,599	35,829	16,500	-	68,928
921	Tenant services - salaries	-	12,286	-	-	12,286
922	Relocation costs	-	2,621	-	-	2,621
931	Water	-	30,963	-	-	30,963
932	Electricity	-	8,540	-	-	8,540
933	Gas	-	3,790	-	-	3,790
941	Ord maintenance/op - labor	-	34,478	-	-	34,478
942	Ord maintenance/op - materials	-	7,289	-	-	7,289
943	Ord maintenance/op - cont costs	-	14,471	23,316	-	37,787
945	Emp benefit contrib - ord main	-	16,855	-	-	16,855

See independent auditors' report

Morgan Metropolitan Housing Authority
Statement of Revenues, Expenses and Changes in Retained Earnings
FDS Schedule Submitted to HUD
Proprietary Fund Type
Enterprise Fund
Year Ended June 30, 2002

FDS Line Item No.	Account Description	14.871 Section 8 Vouchers	14.850 Public & Indian Hsg	14.872 Capital Fund	14.852 CIAP	TOTAL
	EXPENSES - CONTINUED					
961	Insurance premiums	$ -	$ 14,697	$ -	$ -	$ 14,697
962	Other general expenses	-	165	-	-	165
963	PILOT	-	3,936	-	-	3,936
964	Bad debts - tenant rents	-	7,219	-	-	7,219
966	Bad debt - other	-	38,977	-	-	38,977
967	Interest expense	-	196	-	-	196
969	TOTAL OPERATING EXPENSES	88,543	284,916	83,055	-	456,514
970	EXCESS OPERATING REVENUE OVER EXPENSES	358,583	(20,370)	54,596	-	392,809
973	Housing Assistance Payments	351,970	-	-	-	351,970
974	Depreciation expense	3,573	141,520	3,333	-	148,426
900	TOTAL EXPENSES	444,086	426,436	86,388	-	956,910
1001	Operating transfers in	-	20,955	-	-	20,955
1002	Operating transfers out	-	-	(20,955)	-	(20,955)
	TOTAL OTHER FINANCING SOURCES (USES)	-	20,955	(20,955)	-	-
1000	EXCESS OF REVENUE OVER EXPENSES	3,040	(140,935)	30,308	-	(107,587)
1103	Beginning equity	(21,644)	2,411,546	23,404	3,918	2,417,224
1104	Prior period adj/equity transfers	1,910	154,793	(9,372)	(3,918)	143,413
	ENDING EQUITY	$ (16,694)	$ 2,425,404	$ 44,340	$ -	2,453,050

See independent auditors' report

Morgan Metropolitan Housing Authority
Cost Certification of Modernization Project
June 30, 2002

CIAP 908:		
Management improvements	**$**	**2,000**
Operations		**11,400**
Administration		**40,000**
Fees and costs		**3,000**
Site improvement		**13,439**
Equipment		**45,000**
TOTAL EXPENDED	**$**	**114,839**
TOTAL RECEIVED	**$**	**114,839**

1. **The actual modernization cost certificate was signed on October 31, 2000.**

2. **All costs have been paid through June 30, 2002 and there are no outstanding liabilities.**

3. **The final costs on the certificate agrees to the Authority's records.**

See independent auditors' report

Morgan Metropolitan Housing Authority
Schedule of Federal Awards Expenditures
June 30, 2002

	FEDERAL CFDA NUMBER	FUNDS EXPENDED
FROM U.S. DEPARTMENT OF HUD		
DIRECT PROGRAMS		
PHA Owned Housing:		
Public and Indian Housing	14.850	$ 181,501
Public Housing Capital Fund	14.872	137,651
Housing Assistance Payments:		
Annual Contribution -		
Section 8 Housing Choice Vouchers	14.871	446,438
Total - All Programs		$ 765,590

See independent auditors' report

Jones, Cochenour & Co.
Certified Public Accountants

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Morgan Metropolitan Housing Authority
McConnelsville, Ohio

Regional Inspector General of Audit
Department of Housing and Urban Development

We have audited the general purpose financial statements of Morgan Metropolitan Housing Authority as of and for the year ended June 30, 2002, and have issued our qualified report thereon dated September 13, 2002. The Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as of April 1, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Morgan Metropolitan Housing Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standard* that are noted as 2002-2424-001 through 2002-2424-003. We noted a matter that was communicated to the Authority in a separate letter dated September 13, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Morgan Metropolitan Housing Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted other matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. These are noted as 2002-2424-004 and 2002-2424-005. Reportable condition 2002-2424-004 is also considered a material weakness. We noted a matter that was communicated to the Authority in a separate letter dated September 13, 2002.

This report is intended solely for the information and use of the board of directors, management, Auditor of State and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Jones, Cochenour & Co.
September 13, 2002

125 West Mulberry Street · Lancaster, Ohio 43130 · (740) 653-9581 · Columbus: (614) 837-2921 · Fax: (740) 653-0983

Jones, Cochenour & Co.
Certified Public Accountants

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133*

Board of Directors
Morgan Metropolitan Housing Authority
McConnelsville, Ohio

Regional Inspector General of Audit
Department of Housing and Urban Development

Compliance

We have audited the compliance of Morgan Metropolitan Housing Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133* that are applicable to each of its major federal programs for the year ended June 30, 2002. Morgan Metropolitan Housing Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Morgan Metropolitan Housing Authority's management. Our responsibility is to express an opinion on Morgan Metropolitan Housing Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Morgan Metropolitan Housing Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Morgan Metropolitan Housing Authority's compliance with those requirements.

In our opinion, Morgan Metropolitan Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The management of Morgan Metropolitan Housing Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Morgan Metropolitan Housing Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management, Auditor of State, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Jones, Cochenour & Co.
September 13, 2002

Schedule of Findings and Questioned Costs
OMB Circular A-133 § .505

Morgan Metropolitan Housing Authority
June 30, 2002

1. SUMMARY OF AUDITORS' RESULTS

Type of Financial Statement Opinion	**Qualified**
Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	**Yes**
Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	**Yes**
Was there any reported material non-compliance at the financial statement level (GAGAS)?	**Yes**
Were there any material internal control weakness conditions reported for major federal programs?	**No**
Were there any other reportable internal control weakness conditions reported for major federal programs?	**No**
Type of Major Programs' Compliance Opinion	**Unqualified**
Are there any reportable findings under § .510?	**No**
Major Programs (list):	**Section 8 Vouchers CFDA #14.871**
Dollar Threshold: Type A/B Programs	**$300,000**
Low Risk Auditee?	**Yes**

2. FINDINGS RELATED TO FINANCIAL STATEMENTS

Finding Number	2002-2424-001

CO-MINGLING OF FUNDS, VIOLATION OF PART A, SECTION 10 OF THE ANNUAL CONTRIBUTIONS CONTRACT (ACC).

The Authority is permitted to deposit into the General Fund, funds from other projects or enterprises in which HUD has no financial interest. The Authority is prohibited from withdrawal of funds for the projects under ACC or other enterprises in excess of the amount then on deposit. Co-mingling of funds refers to the use of one program's funds to pay expenditures for another program.

The Authority has used Low Rent and Capital funds to pay expenditures of Options, Inc. according to the general ledger, as of June 30, 2002, there was $42,977 in accounts receivable from Options, Inc. Further, the existing documentation indicates that Capital Funds were used to pay off Section 8 FSS escrows ($10,000), to refund the low rent security deposit account ($10,000) and as a contribution to Options, Inc. ($6,000). The Authority had planned to purchase a maintenance vehicle using Capital funds, but after ordering the vehicle realized that there were no funds available. In order to proceed with the purchase, the Authority borrowed the funds for the purchase. The Annual Contributions Contract (ACC) prohibits the Authority from encumbering the projects under the ACC or pledging as collateral for a loan, the assets of any project covered under the ACC.

Recommendations: The Authority staff and Board of Commissioners must become familiar with each program. The governing documents must be reviewed by the board and made available to the staff members that are accountable for program management. There must be a full accounting of funds owed by Options, Inc. to the other programs operated by the Authority. The Authority must address the manner in which funds can be returned to the appropriate programs.

Response to Jones, Cochenour & Co: The Authority is conducting an internal audit to review expenditures to determine the extent of co-mingling and how best to fashion any needed corrective action. The Accountant for Morgan MHA has determined that Options, Inc. only has approximately $4,000 in a bank account, and since Options, Inc. has gone out of business the only funds that may be recovered is $4,000. Therefore an allowance account had to be created for $38,977 in Low Rent Public Housing funds that were not expended for other projects or enterprises in which HUD had a financial interest.

Finding Number	2002-2424-002

THE AUDIT FOR PERIOD ENDING 2001 WAS NOT SUBMITTED TO HUD WITHIN NINE MONTHS.

The "Uniform Financial Reporting Standards for HUD Housing Programs" requires submission of the fiscal audit within nine months of the end of the fiscal year. The audit for period ending June 30, 2001, was due on March 31, 2002.

Recommendation: Submit future audit reports timely.

Response to Jones, Cochenour & Co: The audit report for fiscal year ending 2001 had been submitted by the audit report date.

Finding Number	2002-2424-003

COST ALLOCATION PLAN

The Authority does not have a cost allocation plan as required by Office of Management and Budget (OMB) Circular A-87. The Authority needs to implement a cost allocation plan that addresses the allocation programs of central and indirect costs in a reasonable and consistent manner. A review of costs indicates that in most cases, there was no indication of prorated costs, such as utilities, telephone expense, postage, and office supplies. The method to allocate salaries across the programs was not supported or documented. For example, all of the Maintenance Director's time was allocated to the Capital Fund, but few Capital fund improvements have been undertaken.

Recommendation: Develop and submit a cost allocation plan that provides for a reasonable and consistent basis for costs to be assigned. Cost allocation for salaries of employees who work with more than one program should be based on actual time spent per program. This may be evidenced by analysis of time sheets.

Response to Jones, Cochenour & Co.: The accountant is currently developing a cost allocation plan.

Finding Number	2002-2424-004

QUESTIONED COSTS/FAILURE TO FOLLOW INTERNAL POLICIES – REPORTABLE CONDITION – MATERIAL WEAKNESS

The Annual Contributions Contract (ACC) defines an operating expense as necessary for the operation of the project. The mission of the Housing Authority is defined as the operation of each project in an economic, efficient and stable manner. The following are examples of questionable expenditures from the general fund:

- **The Authority has credit cards in the name of the Authority. During testing of cash disbursements it was discovered that detailed billing for the credit card expenditures was not always available. It is not possible to determine exactly what items were purchased because only the credit card statement is attached to the payment. The statements lump purchases into general merchandise or office supplies. The credit card account also had expenditures for Options, Inc.**
- **The Authority has cell phones that are for Authority use. There were calls made on the bills that could not be documented as work related calls. There were no policies put into place when cell phones were provided for use.**

Recommendation: The responsible person signing checks must review the invoices submitted for payment and assure that all the proper documentation is attached. Policies and procedures need to be put into place for cell phone usage.

Response to Jones, Cochenour & Co.: Policies are being put into place to address both of these issues.

Finding Number	2002-2424-005

REPORTABLE CONDITION – LACK OF SEGREGATION OF DUTIES:

During our audit of the Authority, it has been noted that the procedures used to complete a transaction are under the control of one person. Considering the small size of the staff, total segregation may not be cost effective. However, segregation of duties should be implemented when possible as well as practical. With continuous monitoring, the following procedures are suggested:

Recommendation: In general, the following rules are specially beneficial:

- **Do not allow a single employee to handle a cash transaction from beginning to end.**
- **The cash handling function should be separated from the function of recording cash transactions in the books of account.**
- **The receipt of cash should be centralized**
- **Customers should obtain a receipt at the conclusion of each sale.**
- **Cash receipts should be deposited to the bank intact on a daily basis.**
- **All cash disbursements should be made by check.**
- **Employees not involved with cash processing should prepare bank reconciliations.**
- **Bank reconciliations should be performed on a timely basis at the end of each month.**

Response to Jones, Cochenour & Co.: The Authority will study their current internal controls and make modifications where possible and necessary.

3. FINDINGS RELATED TO FEDERAL AWARDS

There are no findings or questioned costs for the year ended June 30, 2002.

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

MORGAN METROPOLITAN HOUSING AUTHORITY

MORGAN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 8, 2003